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# Reforming government funding of development NGOs

A comparative analysis of eight European donors

Leen Nijs  
Robrecht Renard



University  
of Antwerp

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Comments on this Working Paper are invited. Please contact the authors at **<leen.nijs@ua.ac.be> or <robrecht.renard@ua.ac.be>** .

**Institute of Development Policy and Management**  
University of Antwerp

Postal address:	Visiting address:
Prinsstraat 13	Lange Sint Annastraat 7
B-2000 Antwerpen	B-2000 Antwerpen
Belgium	Belgium

tel: +32 (0)3 265 57 70  
fax +32 (0)3 265 57 71  
e-mail: [dev@ua.ac.be](mailto:dev@ua.ac.be)  
[www.ua.ac.be/dev](http://www.ua.ac.be/dev)

# **Reforming government funding of development NGOs**

## A comparative analysis of eight European donors

Leen Nijs\*  
Robrecht Renard\*

May 2009

\* IOB, University of Antwerp



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## ABSTRACT

This paper consists of a comparative study of public financing of NGO development cooperation in selected European countries. The study encompasses the Nordic+ group (Denmark, Finland, Norway, Sweden the Netherlands, the United Kingdom and Ireland) and Switzerland. Its main objective is to find out whether and how in the countries studied the modalities and objectives of the subsidization of Northern NGOs have been adapted to the rationale and requirements of the new aid approach as embodied in the 2005 DAC Paris Declaration. We describe the evolutions in the volumes, the procedures and modalities of funding to Northern NGOs, We argue that remarkable changes have been made in co-financing of development NGOs and give an analysis of the underlying rationale of these reforms. The annex to this paper contains the full version of the country studies.

## RÉSUMÉ

Cette publication consiste d'une étude comparative du financement public de la coopération au développement des ONG dans une sélection de pays européens. La recherche comprend le groupe Nordic + (Danemark, Finlande, Norvège, Suède, Pays-Bas, Royaume-Uni et l'Irlande) et la Suisse. Son objectif principal est de découvrir si et comment les modalités et objectifs du financement des ONG du Nord dans les pays étudiés ont été adaptés à la logique et les exigences de la nouvelle approche de l'aide énoncés dans la Déclaration de Paris de 2005. Nous décrivons les évolutions dans les volumes, procédures et modalités du financement des ONG du Nord. Nous argumentons que des changements substantiels se sont produits dans le cofinancement des ONG de développement et nous fournissons une analyse de la logique sous-jacente de ces réformes. L'annexe de cette publication contient la version complète des études de pays.

## 1. INTRODUCTION

This paper consists of a comparative study of public financing of NGO development cooperation in selected European countries. The main aim of this paper is to find out whether and how in the countries studied the modalities and objectives of the subsidization of Northern NGOs have been adapted to the rationale and requirements of the new aid approach. We try to find out what recommendations have come out of evaluations and reports made for this purpose, what changes have actually been implemented, and how these changes are in line with the DAC 2005 Paris Declaration and the 2008 follow-up High Level Meeting in Accra. The report was commissioned by the Directorate General for Development Co-operation (DGDC) of the federal government of Belgium to provide ideas for the ongoing debate on co-financing reform in Belgium, and for this reason the findings are sometimes compared and contrasted with the Belgian situation.

This study encompasses the Nordic+ group (**Denmark, Finland, Norway, Sweden the Netherlands, the United Kingdom and Ireland**) as these countries have been forerunners concerning the reform of their development aid in the light of aid effectiveness. We also study the case of **Switzerland**, because of the interesting studies and policy debates on NGO funding in this country and also because of some similarities with our own country, Belgium, in size and political/social structure.

The paper is structured as follows: in section 2 we briefly comment on evolutions in the volumes of funding to Northern NGOs. Section 3 consists of a description of the procedures and modalities of NGO funding in the countries studied. Studies and evaluations from the late 1990s onwards point to a same set of basic challenges, and policy reforms in the countries studied provide surprisingly similar answers. In section 4 we describe the underlying logic of these reforms. We argue that slowly but surely, an evolution has taken place in public funding of NGOs. In some countries this has entailed sharp policy changes, in others the adjustments have been more gradual. But the changes in these aid agencies' policies all point in the same direction. The emerging strategy seems to be that NGOs (1) must act in synergy with bilateral aid and contribute to an overall aid strategy that is consonant with the international consensus on good donorship (Paris Declaration), (2) that they are recognised as being different from bilateral donors and are expected to perform specific and autonomous roles, and (3) that co-financing is not an historical entitlement for long-term NGO partners of the public system and that funds will be allocated on a competitive basis, with winners and losers. The reforms have been widely discussed with NGOs, but bilateral donors have taken the initiative everywhere and are very much in the driver seat. The new strategy does not imply that bilateral donors necessarily wish to diminish the share of aid allocated through the NGOs. If anything, the message is that, even if the roles of NGOs that are being funded are defined more precisely and NGOs must accept more competition, funding to NGOs will remain important. After presenting the rationale of this evolving strategy on the funding of NGOs, we point to some unresolved issues, and we speculate about whether further reforms are likely.

The annex, which in volume constitutes the bulk of the report, contains the eight country briefs, and a selective bibliography.



We searched the official websites of the donors, where we looked for policy documents and evaluations, but also checked the academic literature, the DAC peer reviews and we consulted the DAC statistical database. It must be pointed out that, notwithstanding the access to ample official documentation and the many outstanding independent reports and evaluations that we were able to consult, a desk study has clear limitations. For instance, it does not allow a critical assessment of the finer points of some of the reforms. Furthermore, it is not always easy to assess how strict official policy guidelines are being enacted. As reported in several evaluation reports, NGO funding in practice may well not be a full reflection of the stated policy. Another weakness - this time not due to the nature of our approach - is that reliable comparative data on NGO funding are hard to find. The most authoritative data are published by the OECD/DAC. But we found surprising differences between what donors report to DAC and what they publish in their own documents. The problem is that NGO-funding consists of more than co-financing alone, and additional financing mechanisms are often scattered over different departments and budget lines, and are thus not identified as NGO funding in DAC statistics. Problematic areas are subcontracting, humanitarian aid, special thematic funds, and the funding of Southern NGOs. Equally problematic are the estimates of the DAC on the own funding of the NGOs. These problems are well known.<sup>1</sup> Comparison of NGO policies is less beset by problems, but even here things are sometimes complicated by the fact that donors employ diverging definitions and terms (Udsholt 2008).

This study was finalised at the end of November 2008 and goes back to reports from the end of the 1990s onward. Some recent documents were received through e-mail contact with NGO divisions in the countries studied. It is nevertheless possible that some recent changes in the funding mechanisms have escaped our attention and are not included in the review, because the consulted information sources are not always fully up to date while some documentation is not available in English.

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<sup>1</sup> For example, Agg (2006) uses the DAC database to assess trends in NGO funding and stumbles across large and apparently erratic fluctuations, which are most probably attributable to reporting inconsistencies rather than sudden shifts in donor spending.

## 2. LEVEL OF FUNDING TO NORTHERN NGOS

Figure 1 summarizes statistical information from the DAC regarding NGO-funding. In 2005-2006 the eight countries studied on average channeled almost 14% of their ODA to NGOs<sup>2</sup>. This is higher than the 9% for Belgium and much higher than the average of 5% for all DAC members taken together. Abstracting from the different degrees of underreporting of humanitarian funding to and through NGOs and of direct support to Southern NGOs, Belgian NGOs get a lesser share of total ODA than their colleagues in the European countries studied get. However, this average is not necessarily very meaningful because of the large variation it hides: in three of the countries (Denmark, Finland, and the UK) the percentage is actually lower than in Belgium.

Taking a historical view, and comparing the data of 2005-2006 with those of 2000-2001, at the beginning of the new aid approach, we observe an increasing share of ODA to NGOs in the countries studied, from 11% to 14%. By contrast, the share in Belgium has decreased in the same period, from 13% to 9%. We do not think too much can be read in this however, as the changes between the two periods sometimes seem very unlikely, e.g. for Switzerland (from 9% in the earlier period to 17% in the more recent period). We suspect that there is a problem with the way the data have been entered into the DAC system, either because of unclear rules, or because of erratic shifts in the zeal with which data pertaining to NGOs have been culled from different lines of activity.<sup>3</sup>

The direct funding of Southern NGOs may well be gaining momentum. We cannot conclude this from DAC data, as there is no separate reporting on direct financing of Southern NGOs, nor do donors state it categorically.<sup>4</sup> But we infer it from what we read in many documents. The Netherlands have stated the intention to increase direct funding of Southern NGOs. Several Scandinavian donors are also increasingly making use of decentralised financing systems in favour of Southern NGOs (Scanteam 2007). And the same is taking place in the UK. It is interesting to note that in direct funding of Southern NGOs, bilateral donors are experimenting with financial pooling with other donors, and that support often takes the form of core funding. This shift to the South in co-financing mirrors the general trend in decentralisation from headquarters to embassies and delegations, and is made possible by the growing capacity of Southern NGOs. Significantly, it is also in tune with the emphasis in the new aid approach on downward accountability and the need to strengthen local civil society. Note that when bilateral

<sup>2</sup> Or more correctly: *to* and *through* NGOs, which are separate reporting categories within the DAC database. Aid to NGOs suggests a considerable degree of autonomy of the NGOs in the use of aid, as in core funding, while aid through NGOs suggests considerable steering by the back donor, as in subcontracting. It would therefore have been informative to be able to rely on these data to ascertain the extent of freedom NGOs enjoy to use government funding. The DAC definitions of these categories are however somewhat fuzzy and the distinction between the categories is not very clear-cut. The problem is in fact that there are many categories in between those two extremes of core funding and subcontracting, and it is not clear how these should be reported. Certain flexible forms of programme funding easily fit in the rubric 'aid to NGOs' and are not problematic. But aid through NGOs seems to encompass such diverse arrangements as project co-financing schemes with right of initiative, and subcontracting to NGOs. The opacity of the DAC guidelines on this matter is reflected in the apparent inconsistencies in donor reporting on aid to and through NGOs. The aid to/through NGO distinction consequently does not seem very useful, and we have added these reporting categories together in figure 1.

<sup>3</sup> The website of the DGDC (DGDC 2009) gives different information: in 2003 funding of Belgian NGOs was at 6,36% of ODA, in 2007 at 7,89%.

<sup>4</sup> For Belgium however, information on direct financing of Southern NGOs (DGDC 2009) is available and this funding seems to have hugely magnified between 2003 and 2007: from €0,11 million (0.01% of ODA) to €5.01 million (0,35% of ODA). This trend does not however seem to have been at the expense of the funding of Belgian NGOs, which did not drop during this time period (see footnote 3).

donors engage in direct support of Southern NGOs, rather than do this indirectly through co-financing of Northern NGOs, they implicitly enter in competition with Northern NGOs. In the longer run funding to Northern NGOs may well come under pressure if direct funding to local NGOs gains prominence (a fear expressed by many Northern NGOs). On the other hand, bilateral donor agencies also acknowledge the unique contribution of Northern NGOs in informing the public and creating broad support for international solidarity and public aid. None of the studied donors have expressed the intent to decrease funding to Northern NGOs. In fact, some of them (e.g. Denmark, UK, Finland, Norway) intend to increase funding to NGOs or have already done so.

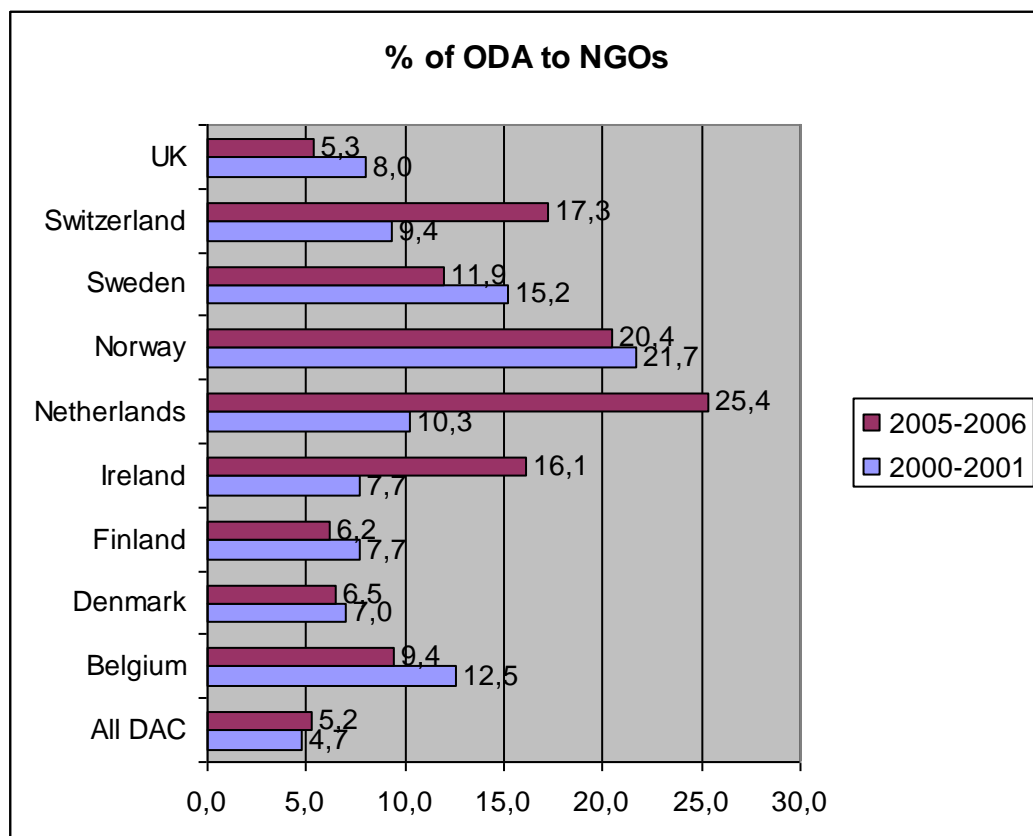


Figure 1: Support to NGOs as % of ODA

Source: DAC International Development Statistics Database, CRS Online<sup>5</sup>

In the following table, as a complement and contrast to the DAC data, we give an overview of alternative data of the studied donors' support to Northern NGOs. This information is mostly compiled from official donor documents.

<sup>5</sup> For some donors, some information on NGO-funding is missing in the DAC statistics for some years. When information seemed incorrect due to this lack of information, we have not included it in the calculation of the average and have given information only for that year for which information was available.

**Table 1: Support to Northern NGOs as % of ODA**

Country	% of ODA through NGOs (donor's own data) <sup>6</sup>
Denmark	6.7% <sup>7</sup> (2007)
Finland	12% <sup>8</sup> (2008)
Norway	14,3% <sup>9</sup> (2002)
Sweden	8% (2005) <sup>10</sup>
Netherlands	25% (2004) <sup>11</sup>
UK	2,25% (2005) <sup>12</sup>
Ireland	13,5% (2007) <sup>13</sup>
Switzerland	6,45% <sup>14</sup> (2007)
Average	11,0

### 3. CENTRAL FEATURES OF THE NEW APPROACH TO NGO FUNDING

In table 2 the major changes in bilateral donor thinking about NGO funding are summarised. These developments should not be interpreted as sudden swings in policies, but rather as indications of the direction in which policy is evolving. As a consequence, most donors are to be found somewhere in the grey area in between the left and the right columns, but moving towards the right.

**Table 2: Evolutions in bilateral thinking about NGO funding**

Before 2000	After 2000
Relation government – NGOs	
Historically grown “privileged” and cosy relationship between a select group of NGOs and the bilateral aid agency	Allocations of funding through an open and competitive system ( sometimes labelled “marketisation” <sup>15</sup> ) based on transparent criteria <sup>16</sup>
A latent consensus on aid strategies. Many of the contributions of NGOs, such as pro-poor	Thinking on a ‘new aid paradigm’ mainly located within bilateral (like-minded countries) and multilateral agencies

<sup>6</sup> We have taken care as much as possible to limit these figures to funding to Northern NGOs for structural development projects. This means that the data do not include humanitarian & emergency aid, direct support to Southern or international NGOs or subcontracting. It is however not easy to compare donor data and a fairly substantial margin of error must be taken into account.

<sup>7</sup> Danida 2008.

<sup>8</sup> MFA Finland 2008a.

<sup>9</sup> MFA Norway 2004. NGO support even surpasses direct bilateral government-to-government cooperation (in 2003, it amounted to 37% of Norad's ODA). Total funding of NGOs is at 22%, but this number includes support for national, international and local NGOs, and emergency relief and structural development cooperation. Support to Norwegian NGOs for structural development is 65% of this figure.

<sup>10</sup> Sida 2006

<sup>11</sup> Ruben & Schulpén 2008.

<sup>12</sup> NAO 2007. Only 25% of all NGO funding for UK NGOs structural development aid.

<sup>13</sup> Irish Aid 2008

<sup>14</sup> SDC 2008b. Includes contributions to the ICRC, so actual figure a bit lower. These figures do not include allocations for subcontracting.

<sup>15</sup> Marketisation is defined by Koch (2009:108) as “the extent to which back donors attempt to simulate markets in their co-financing systems [...] [by] induc[ing] competition between their ‘contracting agencies’”.

<sup>16</sup> To keep the system open to new entrants, a golden parachute is sometimes offered to NGOs that are phased out (Netherlands).

orientation and participation, have been mainstreamed	(World Bank) leads to questions on service delivery substitution by NGOs . Many NGOs alienated from this evolution, and feel threatened by it.
NGO funding disconnected from bilateral aid policy	Formulation, after consultation with NGOs, of a strategy/policy that emphasises intensive and/or extensive complementarity <sup>17</sup> between bilateral and NGO aid
Specificity and different roles direct vs. indirect actors entails strict division of roles	Recognition of different roles, but emphasis on synergy between NGOs and bilateral aid
Dependency of NGOs on official funding not regarded as problematic	Public funding dependency of NGOs regarded as unwise. Focus on popular support and fundraising by NGOs <sup>18</sup>
<b>Modalities</b>	
Project approach is strengthened through approval of detailed activity descriptions (input)	Programmatic approach is encouraged through broader agreements related to strategies and output/objectives
Annual approval of proposals and funding	Long-term funding agreements (3-6 years)
Strong focus on ex-ante approval and output-reporting	Results-based management, stronger focus on M&E. NGOs must be able to demonstrate impact and contribution to official aid objectives.
Detailed reporting using donor formats	Flexible reporting and less bureaucratic control to make flexible support to Southern NGOs possible <sup>19</sup>
Exclusive administrative oversight by the government	Some outsourcing to umbrella organisations or external/private companies <sup>20</sup>
Emphasis on right of initiative	More earmarking through special funds, and stricter conditions in co-financing without impinging on the right of initiative
Administration of NGO funding mainly focused on financial control	Focus on strategic policy management at macro level, importance of policy dialogue with NGOs

<sup>17</sup> For a definition of these concepts see page 15.

<sup>18</sup> Organisational capacity to generate own funding or proof of embeddedness in society, e.g. through membership numbers can be taken up as funding criteria (Denmark) or accumulation of funding from different budget lines can be restricted (UK, Switzerland). Finland and Sweden actually recently decreased the portion of funding NGOs have to contribute independently to projects and programs, but also focus a lot on NGO activities in the North and development education.

<sup>19</sup> In order to grant NGOs more flexibility and to encourage a strategic approach the UK bases some of its funding on the attainment of certain pre-agreed results instead of the implementation of projects/programmes. Another strategy is to agree that a certain percentage of the allocated funding only has to be accounted for ex-post (recommendation TMF Netherlands). This makes it possible for NGOs to support their partner through core funding. Contributing to basket funding for Southern NGOs can also be made possible, by e.g. introducing a condition that local partners' capacity must be sufficiently proved by the Northern NGO to its back donor (Denmark).

<sup>20</sup> The appraisal of funding proposals can be delegated to an external commission (the Netherlands), an NGO umbrella organisation (Finland, Sweden) or a private company (UK, for small projects).

Strategy	
Generous funding regarded as an NGO entitlement	Funding must fit into official civil society strategy
Support to Southern civil society mainly through Northern actors	More direct funding of Southern NGOs by bilateral donor
Large autonomy in the choice of activities	Focus on lobbying <sup>21</sup> and advocacy and mainstreaming of official aid cross-cutting issues. Service delivery interventions must respect Paris Declaration principles <sup>22</sup> .
Aid strategy based on projects and programmes	Paris Declaration and shift to sector and budget support is reflected in requirements related to more strategic approach of NGOs.

Some emerging characteristics of the new donor approach to NGO-funding are worth explaining in detail. Firstly, donors are increasingly telling NGOs where their specific contribution lies. They do this by circumscribing more explicitly and in more detail than in the past the **roles of Northern NGOs**. In several countries, for instance, funding guidelines stipulate that proposals cannot be purely based on service delivery. Under the new aid approach, this is a task that basically befalls the local authorities and civil societies. Service delivery activities by Northern NGOs have become somewhat suspect, a relic from a previous aid paradigm. They are nevertheless tolerated, even welcomed, provided they are either linked to advocacy and a rights-based approach, or have some specific added value, e.g. reaching especially marginalised groups or launching specific innovative approaches. NGOs are also increasingly invited to justify in their applications for funding how they themselves define this role, and how they take into consideration the particular **context of the country** they are working in. On top of all this, NGOs are expected to apply, in service delivery activities, the principles of the Paris Declaration of harmonisation with other donors, and where possible alignment with the government.

Another evolution that has occurred with regard to NGO roles is that, except for one (Norway) all donors studied have recently established, in consultation with the organisations, **a clear strategy document** that specifies how the funding of NGOs fits into the general civil society support strategy and bilateral development policy. In Switzerland for example, this policy document very clearly separates NGO roles in co-financing (extensive complementarity) from those in subcontracting (intensive complementarity).<sup>23</sup> The elaboration of such a shared strategy helps ensure that all NGO funding is based on a strategic vision.

**Synergy** is also a major objective of all the donors we studied. Most evaluations of NGO-funding that were reviewed for this study point to a lack of synergy between bilateral aid

<sup>21</sup> Official donors however still often subcontract NGOs for the implementation of service delivery components of bilateral aid programs. It is also relevant to mention that it becomes increasingly difficult to measure the results of NGO projects and programs when the focus shifts to the more “political” roles of NGOs. For example, it is very difficult to measure impact on Southern civil society strengthening.

<sup>22</sup> Some donors subject service delivery interventions to stricter requirements, e.g. with regard to alignment with the Southern government and coordination with other actors in the field (Norway), harmonisation with the donor agency (UK, the Netherlands) or mandatory combination of service delivery with advocacy/lobbying (Denmark, UK, Ireland).

<sup>23</sup> For an explanation of these terms, see page 15.



and officially funded NGO activities. Often the different actors are not really aware of each other's activities and NGO interventions are disconnected from bi- and multilateral aid. All donors included in this study have undertaken initiatives to encourage synergy. For example, they organize consultations between direct and indirect actors, e.g. meetings between sector departments and NGOs or between embassies/field delegations and NGOs. It has also become common to expect NGOs to harmonise with the funding aid agency when they are active in the same country and sector. However, such good intentions, even if included in policy initiatives or formalized in guidelines may well only have a limited effect on actual cooperation in the field. A few donors incorporate more binding synergy requirements by linking them to the allocation of funds to NGOs. However, the less far-reaching approaches to synergy seem more common.

Most donors explicitly incorporate a strategy on the **relationship between bilateral sector and geographic allocations** and NGO funding in their NGO funding policy. They encourage NGOs to be active in priority sectors or incorporate cross-cutting systems through financial incentives or theme-based financing. However, none of the donors studied requires or gives incentives to NGOs to be active in the bilateral programme countries. They do not seem to believe that by forcing indirect actors to work in the same countries and sectors as the bilateral agency, synergy will be achieved (on this version of the synergy argument see Koch 2007).<sup>24</sup> Nor do these donors seem to care much about the inevitable increased statistical fragmentation that such policies entail.<sup>25</sup> Most of the studied donors regard funding through NGOs as complementary to bilateral aid even in cases where NGOs cover different countries and sectors. This means that they wish to broaden the geographic and/or sector coverage of their ODA through NGO funding. This is for example the case for a donor whose selectivity policy leads it to focus mainly on "good governance" countries. Such a bilateral donor may wish to use the non-governmental aid channel to cover the failed states and poorly governed countries, where it is harder for bilateral aid to be effective.

It may be useful to distinguish two notions of complementarity (see Koch 2007 who introduces a similar distinction). With **intensive complementarity** we refer to situations where NGOs and bilateral aid agencies work in the same countries and sectors, closely interact and divide tasks according to their respective added value. With **extensive complementarity** we refer to situations where bilateral aid and NGOs complement each other by working in different countries and/or sectors, whereby the division of tasks is again based on comparative advantage. The **geographic extensive complementarity** view is voiced in many policy documents and evaluations, but it does not seem to have been translated into financial incentives or funding restrictions for any of the studied donors (see country briefs, and also Udsholdt 2008). This suggests that it is expected that NGOs will follow this advice

<sup>24</sup> Nor does this seem to be the case in many other DAC countries (DAC 2005a). According to the DAC, this lack of harmonisation increases fragmentation and forms a barrier to synergy between the bilateral and non-governmental aid channels. One exception known to the authors is Austria, where NGOs can get a bigger percentage of a project funded when it is implemented in an Austrian programme country or focuses on an Austrian thematic priority (ADC 2007). E.g. for projects, maximum federal funding is at 50% for Austrian priority regions and countries and 25% for projects in other areas (ADC 2005). In our own country, Belgium, a May 2009 agreement between the government and the NGOs specifies that from 2011 onwards, NGOs who implement projects can only receive funding for activities in 22 countries (this list includes the 18 Belgian partner countries). NGOs who receive programme funding must focus on 50 countries, the list of which will be decided in mutual agreement between the administration and the organisations. This type of concrete specification of the countries for which organisations can request funding is quite unusual.

<sup>25</sup> On the other hand, as Koch (2008) argues, expecting NGOs to be active in the same countries as bilateral aid could further exacerbate the aid darling/aid orphan divide, especially since NGOs already cluster their activities in a too small number of countries.

spontaneously, but this may well be wishful thinking on the part of public donors. Empirical research does not support the view that NGOs are active in more poorly governed states to a greater extent than bilateral donors.<sup>26</sup> In fact bilateral agencies and NGOs from the same donor country often share the same geographical preferences.

There seems to be more steering from donors when it comes to achieving extensive and intensive complementarity in the realm of **sectors and themes**. Thematic funding (Netherlands, UK, Denmark) is one way to steer the co-funded activities of the NGOs to a larger extent and connect them with official development policy objectives. Thematic funding can be integrated into the general funding modalities by e.g. specifying that smaller organisations can only request funding for specified themes (Netherlands, Ireland), by launching special funding rounds for proposals that relate to certain themes the aid agency has prioritised, e.g. HIV/AIDS or governance (Denmark, UK) or by requiring project proposals to integrate bilateral cross-cutting themes (Ireland). While donors in the countries studied emphasise extensive more than intensive complementarity, when an NGO chooses to work in service delivery in the same country and sector as the bilateral donor, strong harmonisation is expected (e.g. Denmark, Sweden, Netherlands, UK). Sweden for instance requests NGOs to spell out in their proposals for bilateral programme countries how their activities relate to the bilateral strategy. The extent to which coherence is expected can be made dependent on the type of NGO and the type of interventions it implements (recommendation from the evaluation of the British PPAs). Switzerland seems to restrict intensive complementarity to subcontracting, and does not impose any strict conditions to that effect on its right-of-initiative funding.

When it comes to **NGOs' right of initiative**, we generally observe a tendency in all of the countries under study towards upholding this principle, but also of ringfencing it. Governments increasingly constrain the way in which NGOs can use government funding (see the country briefs in the annex for more detail, and also Agg 2006). NGOs are expected more than in the past to work towards synergy with bilateral aid policy, yet at the same time concentrate on their specific roles, to manage aid in accordance with international principles of good donorship, and to demonstrate that they can achieve measurable results.

However, this does not mean that NGOs in the countries studied do not operate with a considerable degree of autonomy. Especially in the Scandinavian countries, the starting position was one of near absolute NGO freedom and autonomy. Although donor agencies in these countries are increasingly sharpening the rules for government-funded NGO activities, NGOs still enjoy a high freedom of initiative<sup>27</sup>. It must also be noted that reform of the policy on NGO funding generates quite a lot of debate in these countries, and that gradual changes seem the only politically feasible option.

In the Netherlands and the UK, the situation is somewhat different from the Scandinavian countries. The Dutch situation has been changing quite rapidly over the last ten years. Dutch co-funding agencies used to be legally entitled to a tenth of all ODA, fully funded and with few strings attached. Co-funding sums were divided over a restricted number of NGOs

<sup>26</sup> For references, see the authors referred to in the country studies.

<sup>27</sup> We came across several suggestions in our literature review that their autonomy is higher than would appear from a strict reading of official guidelines, meaning that these guidelines are not always applied very strictly or are bended in favour of the NGOs. The desk study approach that we took did not allow us to confirm or question these claims.



(or umbrella organizations) on the basis of a negotiated formula which was not directly related to performance but reflected the strength of different ideological tendencies within Dutch society. This system has been replaced by a new one that is strongly competitive and performance-based, with firm steering from the Dutch MFA. In the UK, the NGO support system is also explicitly results-based, with strict funding criteria and considerable steering from DFID for non-core funding.

These differences can best be understood in their *societal and political context*. The roles of civil society organisations – developmental or not – differ across countries. In Scandinavia, government-NGO relationships are based on a more consensual, collaborative approach with government views on development issues largely similar to those of NGOs. In this particular tradition of the social democratic welfare state, the views of civil society organisations are highly valued and they are regarded as partners to the government. Supporting NGOs as such is a goal of government policy. In the Anglo-Saxon tradition, the relationship is more distant and can best understood from a principal-agent perspective, with funding essentially justified on the basis of the effectiveness of NGOs (Lindahl et al. 1999). These different societal models define the parameters of feasible approaches to NGO funding. What works in one country is not necessarily a good model for another. Yet some borrowing seems to be taking place: the Netherlands seem recently to have been more inspired by the Anglo-Saxon model and have moved away from the Scandinavian model.

The approach donor agencies take towards NGO autonomy depends or should depend on *what they wish to achieve through such NGO support*. When strengthening (Southern) civil society, or when enhancing organisational capacity is the main goal, long-term flexible core or institutional funding may be the advisable strategy (support *to* NGOs). When NGO funding is instrumental in achieving a specific (sector) objective or an MDG, results-based funding based on detailed requirements and goals is probably more suitable (support *through* NGOs). The flexibility of NGO funding is thus ideally dependent on the objectives the donor agency wishes to attain. Donors are therefore advised to differentiate more clearly between these types of support (Scanteam 2007). **Appropriate funding modalities can be best designed when a NGO strategy on which to base them is in place.**

In the light of the shift to budget support and the increasing focus on ownership and alignment it is at first sight surprising that the donors in our study did not shift towards core funding of Northern NGOs. This would make alignment to local partners' priorities more feasible and encourage organisational capacity building. One could argue that this lack of enthusiasm for core funding constitutes a discrepancy with the current trends in bilateral aid (budget support ~ core funding). If anything, NGO funding tends to shift from core funding towards stricter *ex ante* conditions and in some cases some earmarking. Bilateral donors do not want to 'instrumentalize' Northern NGOs, in the sense of taking away their autonomy. There is for instance no indication that sub-contracting is replacing right-of-initiative funding. But donors want assurances that Northern NGOs adhere to a jointly agreed strategy and are effective in their use of tax payers money. Intriguingly, public donors move towards more core funding in their support to Southern NGOs, usually through pooled funds from different donors (Scanteam 2007). And they support Northern NGOs to do likewise, but they do not seem to believe that providing core funding to Northern NGOs is the best way to achieve that end. This is actually confirmed in the literature. Often Northern NGOs do not offer the same long-term, flexible funding to their partners as they themselves receives from their back donors (Koch 2008a). So

rather than provide core funding to Northern NGOs, donors seem to prefer to include a number of control and incentive mechanisms in programmatic funding that leaves the NGO with considerable autonomy but also induces the NGO to act in ways which are in line with the overall aid strategy, including eventually core funding to their Southern partners.

Although Northern NGOs are kept on a shorter leash than was sometimes the case before, they on the other hand benefit from more flexible and long term funding, on the basis of results-based agreements, which do not incorporate a detailed description of inputs and activities. Almost all the donors studied have moved from project-funding to a greater focus on a programmatic approach, often in some form of “framework agreements”. This evolution started back in the 1970s, but there have been further changes in many countries. Framework or partnership agreements are now favoured, amounting to long-term (3-6 years) support to one or several NGOs that have been selected through an organisational assessment. The funding tends to be programmatic, insists on a financial contribution from the NGO itself (co-funding), is increasingly results-based, but otherwise grants NGOs considerable flexibility in implementation. Such agreements are often also viewed as conducive to the strengthening of the partnership relationship between the bilateral donor and the NGO as they incorporate frequent policy dialogue. In recognition of the diversity of the Northern NGO landscape, and inspired by a desire to also fund projects from smaller NGOs where the same tough organisational standards cannot be expected, many donors have also installed a special budget line for projects from smaller NGOs, sometimes funded indirectly through some intermediary, often an NGO umbrella organisation.

In conclusion, Northern NGO right of initiative is still a major feature of co-funding but has become less absolute. Conditions and steering from aid agencies have increased, especially but not only in service delivery and stand-alone projects. These new conditions however do not instrumentalise NGOs. Rather, they encourage NGOs to act as good donors in their own right, and provide them the necessary latitude to do so. Donors are increasingly entering into framework agreements with NGOs, which offer long-term, flexible, results-based funding to organisations with sufficient organisational capacity. We could therefore state that in many respects, NGOs have lost the autonomy to do as they please, while on the other hand, they receive the opportunity to use funding in a less rigid way, and therefore are able to better fulfil their unique and distinct roles. A lot of donors have launched flexible funding schemes which give NGOs the opportunity to engage in longer term, core funding of local NGOs. The goal of these funding schemes is also to lessen the administrative burden engendered by project funding and transform the bilateral donor - Northern NGO relationship into a more policy-based partnership. At the same time, most donors have created special budget lines for organisations that are of a smaller size and for whom project funding is more suitable. This type of funding is generally more restricted.

#### **4. NGO FUNDING MODALITIES: THE UNDERLYING MODEL**

When during the 1970s co-financing of NGOs became a standard feature of most donors' aid policy, the thinking about aid effectiveness was very different from today. Project aid was the major aid modality, and donors were actively involved in implementation. As social

service delivery projects could only address the needs for a relatively small group of people at a time, and needs were huge, a diversified approach where a donor might finance hundreds of projects at the same time was not considered problematic, on the contrary. NGOs were considered especially interesting project implementers because of their proximity to the poor, their commitment and low cost, and their participatory approaches. Gradually project funding was replaced by more programmatic funding to the more experienced NGOs, thus reducing the administrative burden on the public donor and providing more flexibility to the NGOs. Since the apparition of the so-called new aid approach around the turn of the century, the perspective on what constitutes good aid modalities, and how NGOs in particular fit into the picture, has changed fairly dramatically. It is not surprising then that co-financing mechanisms are being redrafted in many countries. All the eight donors we studied are envisaging or have already implemented important revisions in their relations with the NGOs.

The eight donors we studied did not use the same blueprint for reforming NGO funding. The efforts are country and donor specific, yet they share a common understanding about how Northern NGOs could play unique but refashioned roles as development actors. This understanding is based on the new aid paradigm itself. The new funding relations on the one hand grant autonomy and flexibility to Northern NGOs, but on the other hand attach strings and restrictions in order to hold NGOs accountable and force them to deliver on what they are good at, keeping to their unique niche, and respecting the principles of good donorship that are embedded in the DAC 2005 Paris Declaration. We summarise this common understanding in the following three points.

#### **4.1. Be part of the grand scheme**

NGOs are expected to share in the broad policy objectives of bilateral donors which they, as Northern civil society, have helped to shape. In various ways donors remind them of this in the reformed funding mechanisms. They are supposed to select countries, sectors, thematic approaches in such a way that they contribute to the shared development strategy. When it comes to service delivery, being part of the grand scheme also means that NGOs are supposed to accept the principles of the Paris Declaration, in particular, that national governments have prime responsibility in this respect, and that foreign donors, where possible, align to national strategies and implementation. NGOs are requested to indicate, in their application for funding, how they take the strategic priorities of the PRSP into account and how they harmonise with other donors (non-governmental and official, not necessarily or only the bilateral donor they get funding from). They must indicate how they avoid unnecessary fragmentation, and how their aid efforts take into consideration what other donors are doing. Synergy with bilateral aid has to be shown, although there is plenty of leeway in how this is implemented. NGOs can opt for extensive complementarity. If however they work in the same countries and sectors as the bilateral donor, then they are expected to allow for intensive complementarity, by consulting with the bilateral donor, and by engaging in mutually reinforcing strategies.

#### **4.2. Be autonomous and different**

One of the unique features of Northern NGOs is that they are part of their own civil society, and have contacts and popular roots that allow them to address the issue of popular support for development cooperation. Bilateral donors also have responsibility in this respect,

but their efforts and those of NGOs to convince the public that development cooperation is a duty and can be meaningful are seen as complementary. For Northern NGOs to take on this responsibility, it is important that they have effective “roots” in their society. The danger of co-financing is that it allows well-meaning NGO technocrats to build up strong expertise, yet to remain disconnected from the general public in their own societies. One test of the embeddedness of Northern NGOs is whether they can mobilise financial support among the general public. For this reason, donors now tend to attach more importance than in the past to the level of own financing that Northern NGOs can provide. Donors are therefore anxious to avoid supporting Northern NGOs to such an extent that they become exclusively dependent on them for financial support.

A second feature of Northern NGOs is that as civil society actors they can approach their partners in the South on a different footing than bilateral donors can. Northern NGOs have a special responsibility to strengthen Southern NGOs and other actors of Southern civil society, both financially, and through efforts at capacity building. It is further acknowledged that civil society, in the North and the South, has a role to play as watchdog. In the new aid paradigm, downward accountability of partner governments to their own citizens is key to success, and bilateral donors cannot impose it. Northern NGOs can help support their Southern partners, with moral support, protection through international lobbying, financially, and through capacity building, so that the latter can claim such downward accountability with more success.

In order for Northern NGOs to take on these responsibilities, they need to have a fair degree of autonomy from the bilateral donor, and not be seen as just instruments of implementation for bilateral programmes. All the donors studied are sensitive to this issue, and NGOs themselves are more than happy to remind them of this crucial dimension. Finally, Northern NGOs play a special role in humanitarian aid, but this is an aspect that tends to be treated differently from structural, long-term support, and we have not given any prominence to this dimension in this study.

#### **4.3. Be professional**

Although donors are willing to grant Northern NGOs, within the overall setting of a joint strategy, the right of initiative and a fair degree of autonomy in implementation, this does not (or no longer) mean that NGOs can do as they see fit. The principles of results-based management also apply to them. NGOs must be able to show with a reasonable degree of precision how their activities have attained the impact that was expected. This also means, inevitably, that they must be able to measure what they aim to achieve. Because of all this, core funding is not the normal funding instrument applied to Northern NGOs, although in certain circumstances it has an important place to fulfil. In general donors prefer flexible but at the same time sufficiently binding funding principles. Donors are aware that rigorous financial and reporting requirements can act as a drag on flexible support to Southern nongovernmental partners, so they allow Northern NGOs to be less restricted by bureaucratic red tape, yet they want at the same time they wish to make sure that Northern NGOs act as responsible donors. Bilateral donors will therefore try to impose such conditions that enable the Northern NGO to be flexible and reasonable towards its Southern partner, yet at the same time competent and effective.

It is difficult to keep Northern NGOs sufficiently on their toes if they have a quasi-monopoly situation in access to funding. For this reason, some donors give clear signals to their client NGOs that funding is not automatic, and that room must be made to new entrants, also implying that established NGOs are not automatically assured of continued funding. In reality bilateral donors seem to be softer on NGOs than they pretend. Nevertheless, the idea of offering sanctioned NGOs some financial parachute is interesting because it makes the threat of sanctions, even if seldom applied, more credible and gives the organisation the opportunity to adapt in order to meet funding requirements.

## 5. CONCLUSION: UNRESOLVED ISSUES

As we indicated before, bilateral donors have been driving the reform in NGO funding. This is in contrast with for instance the transition from project to programme funding from the 1970s onwards, when both the bilateral donors and Northern NGOs were keen to promote such reform. Northern NGOs seem to have largely accepted the reforms, but that does not mean that there are no areas of dispute. In fact, there are several areas where NGOs and bilateral donors remain on opposite sides of the fence. One such area is the financing of Southern NGOs. Bilateral donors who espouse the new aid approach, as to variable extents is the case for all the countries studied, increasingly engage in direct funding of Southern NGOs and other actors of local civil society. Such financing is handled by the embassies/delegations in the field, and increasingly donors try to pool resources in this respect, as described above. But Northern NGOs sometimes contest this direct funding, arguing that public donors are poorly placed to provide such support, for political as much as for managerial reasons. They feel that they are in a much better position to do this, and that bilateral donors should not try to get involved directly in such support.

Another area of tension is who gets access to Northern lines of funding. It is quite natural that NGOs from the donor country concerned are the major beneficiaries, but it is being questioned if this should be to the exclusion of NGOs from other Northern countries, truly international NGOs (such as Action Aid, which has its HQ in South Africa) or Southern NGOs. Northern NGOs obviously are more comfortable if they do not have to share with NGOs from other countries, but in several countries donors are putting this form of aid tying into question.<sup>28</sup>

The increasing focus on measurable results and impact is understandable, but if not handled carefully, might put unreasonable demands on NGOs that in the end will discourage them from undertaking some of the social and political tasks bilateral donors wish to support. Here again some tension exists. The problem is that it is much more difficult to measure empowerment of a local NGO than it is to measure bags of rice. Such social and political effects cannot be measured through the direct outputs and short-term tangible results of NGO projects and programs (Thomas 2008). The pressure to report results may end up in encouraging NGOs to undertake risk-evasive strategies (e.g. working in better governed states, or places where there is already an organisational network present, less targeting of the poorest segments of the population) and focus more on service delivery (where tangible results are easier to achieve) (Bebbington 2005, Fowler 2000). This may undermine the innovative role that

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<sup>28</sup> E.g. in the Netherlands, where non-Dutch organisations can now compete for co-funding on the same budget line as Dutch organisations.

donors expect Northern NGOs to play. Koch (2008b) recommends that aid agencies provide NGOs with the incentives to work in risky environments, i.a. by making less strict demands on short-term impact in these kind of settings.<sup>29</sup>

Importantly, upward accountability relationships between Northern NGOs and their back donors are mirrored in the partnership relation between Northern NGOs and their partners in the South. Increasing bureaucratisation and emphasis on reporting of quantifiable results in donor-imposed formats have the potential of distorting this partner relationship (Bebbington 2005, Wallace et al. 2007).

Have the reforms that we have described in this report reached their final conclusion, or are still in the middle of a process that has to go through more stages? We do not know the answer to this question, but it seems to us that we have not yet seen the end of the reform. Northern NGOs are formidable lobbies, and have a huge following among parliaments and public opinion. One senses, throughout the evaluations and studies, that quite some experts and aid officials would want to go further along the road already travelled, and that the end is not yet in sight. The Netherlands, Denmark and Norway will in any case emit new civil society policies or guidelines soon.

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<sup>29</sup> Koch (2009) however found that more marketised co-funding systems do not necessarily result in risk-evasive behaviour from NGOs, and that on the contrary, NGOs who received funding in less competitive systems were less inclined to work in poorly performing states.

**SUMMARISING TABLE : AN OVERVIEW OF MODALITIES AND GUIDELINES FOR NGO FUNDING IN THE STUDIED COUNTRIES**

	Civil society strategy	Modalities	% own funding required	NGO dependency on official funding	Geographic guidelines	Thematic/ sector guidelines	Harmonisation with back donor	Policy on NGO roles
<b>Denmark</b>	Yes (2000, new one to be launched soon)	-Framework agreements (4 years) -Mini-programmes -Projects	10% (used to be 0%)	69% <sup>30</sup>	None	None, but earmarked budget line (HIV/AIDS)	When active in programme country in same sector as Danish bilateral aid, close coordination expected	Service delivery must be combined with capacity building and advocacy (with exceptions)
<b>Finland</b>	Yes (2007)	-Framework agreements (2-4 years) -Project funding	15% (used to be 20%)	27% <sup>31</sup>	None, but extensive complementarity is objective of funding	None, but separate funding scheme for three thematic organisations	No guideline, coherence with (broad) general Finnish development policy principles expected.	No guidelines
<b>Norway</b>	No (possibly to be launched soon)	-Framework agreements (5 years) -Project funding	10%	70-80% <sup>32</sup>	No guidelines but project funding in practice more easily available for priority countries and themes. Also for project funding some geographic and thematic budget lines exist.		Service delivery interventions and activities funded by thematic budgets are subject to more control from Norwegian authorities.	All activities (service delivery or advocacy) should have a rights- based approach.
<b>Sweden</b>	Yes (2007)	-Framework agreements (~core	10% (used to be 20%)	Around 80% <sup>33</sup>	None	HIV/AIDS perspective has to be incorporated	General goals and principles of Swedish bilateral aid must	Advocacy, capacity building, and service

<sup>30</sup> DAC IDS.

<sup>31</sup> DAC IDS figures

<sup>32</sup> MFA Norway 2004

<sup>33</sup> Dreher et al. (2007)



		funding) -Programme agreements				when active in SSA	underpin NGO activities. When active in Swedish programme country, NGOs must specify how their activities relate to Swedish assistance strategy.	delivery coherent whole of tasks all NGOs must undertake.
<b>Nether- lands</b>	Yes (to be launched soon)	-Programme funding	25%	60-80% <sup>34</sup>	Extensive complementa- rity expected: NGOs to work mostly in failed states. NGOs must situate their activities in the bilateral Dutch “country profiles”. <sup>35</sup>	Previously use of thematic funding and MFA priority themes taken into account when assessing funding proposals. Small organisations must submit a “thematic proposal” that fits in the MFA priority themes. In future funding of themes will be dependent on country context where NGO intervenes.	Level of harmonisation dependent on country context. When working in Dutch programme countries, close cooperation with Dutch official aid actors expected. Cooperation agreements with Dutch bilateral actors must be included in NGOs’ strategic plans.	Dependent on country context, no funding for activities that have as primary objective service delivery. More political work expected, especially in “transition” and good governance states.
<b>UK</b>	Yes (2006)	-Framework agreements (3-6 years) -Project funding (max. 5 years)	0% (CSCF)	3-8% <sup>36</sup>	None	Thematic funding round for governance. DFID cross-cutting issues must be incorporated in project funding.	Certain level of coherence between organisations’ and DFID priorities funding criterion for framework agreements. Projects must be coherent with DFID	Focus on governance. Originally project funding only for advocacy & capacity-building, later scope enlarged to

<sup>34</sup> Koch 2008, IDS 2004.

<sup>35</sup> This information for the Netherlands is based on the speech of Koenders of November 2008, which sets out the main features of the future Dutch NGO policy.

<sup>36</sup> IDS 2004.



							assistance strategies.	service delivery projects with added value (innovative or in difficult environment) and rights-based approach.
<b>Ireland</b>	Yes (2008)	-Framework agreements (5 years) -Project funding (up to 3 years) -Micro-projects	25%	35% <sup>37</sup>	No guidelines	For framework agreements no coherence with Irish aid priority themes or mainstreaming of Irish Aid cross-cutting themes expected. Projects should mainstream Irish Aid crosscutting issues. Micro-projects can only be proposed for (broad) themes predefined by Irish Aid.	Close cooperation/consultation expected.	Interventions focusing only on service delivery not eligible for funding.
<b>Switzerland</b>	Yes (2008)	-Project and programme funding	50%	42% <sup>38</sup>	Extensive complementarity expected for projects and programs. However, no constraining guidelines.	No guidelines.		

<sup>37</sup> DAC 2003b, figure seems to optimistic however as Irish Aid requests NGOs to be no more than 70-75 % dependent on government financing when applying for funds.

<sup>38</sup> DAC IDS figures

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